PX 281

From:	Phil Rapoport ██████ripple.com>
Sent:	Friday, July 11, 2014 8:07 AM
To:	██████████
Cc:	Chris Larsen;██████████
Subject:	Re: Explanations on dumping / ██████

1) It's really hard to audit resellers. I spent hours looking through ██████ows this week, and still only feel like I'm solid on 90% of the trails. I think we will ultimately run into more problems if we provide economics that are better than the market, regardless of whether it's an upfront discount or a month end rebate. It will still lead to market pressure as people find more creative ways to arb -- that's what markets do.

It would make more sense to me to expect the resellers to charge their customers a small premium to market price for block trades. This is
absolutely customary in financial markets.   Currently, if a buyer wanted
to purchase 100mm XRP, he would move the market +10% or likely much more.
That is to say: the market price to purchase 100mm XRP is not equal to last trade -- it's meaningfully higher.

By selling big size at market price, we are already providing an implicit discount to the buyer, because his/her alternative is to buy in the market which equates to way worse economics. To put it another way, if the buyer doesnt want to pay market price, can he do better? If not, then why are
we bargaining against ourselves...

XRP resellers are providing a service -- liquidity. They should charge for that service. If someone doesnt like the idea of paying up a little to get good liquidity, then they are welcome to go to the open market and manage
the liquidity themselves.   It should be quickly apparent that a█████
premium to market is a discounted price or ██████RP.

██████xplanation does not jive with what I see on the tape.
 Something still feels fishy here.

The 3 main selling accounts we've linked t█████████are all financially
very interconnected.   For example, 2 of the selling accounts ultimately
send USD proceeds to the same destination:██████ot Wallet.

Also, his explanation that the bogus orderbook is used for accounting purposes doesnt make sense. Accounts on both sides of the "hop" are sending USD proceeds to the same account...

Here's a diagram which does not show every single path we've identified, but it shows enough to make me seriously question his explanation:

[image: Inline image 1]

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On Fri, Jul 11, 2014 at 10:15 AM, ████████ ███████ @ripple.com> wrote:

Redacted - Privilege

>
> ████████
>
> ████████ *Chief Compliance Officer *Ripple Labs Inc.*
> ████████████████████ www.ripple.com |
> www.ripplelabs.com
>
>
>
> On Fri, Jul 11, 2014 at 7:46 AM, Chris Larsen ████ ipple.com> wrote:
>
>> Obviously we need a lot of work here but I would propose an immediate
>> fix to our wholesale program as follows:
>> 1) We sell to approved wholesalers at spot market.
>> 2) We pay wholesalers a ████ commission on all purchases (whether
>> resold or not) at month end
>> 3) Require contractually that wholesalers can not resell at less than
>> spot (anti-dumping) and no more than ████ over spot (anti-duping)
>> 4) Wholesaler accounts will be analyzed at month-end (before
>> commission pay outs) to ensure constructive behavior
>>
>> Let's discuss tmrw
>>
>> *CHRIS LARSEN | *CEO
>> *Ripple Labs Inc.*
>> ████ ripple.com | www.ripple.com | www.ripplelabs.com
>>
>>
>>
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>>
>> On Thu, Jul 10, 2014 at 8:06 PM, ████████████ @ripple.com> wrote:
>>
>>> righto -- we'll pick this up tomorrow.
>>>
>>>
>>> On Thu, Jul 10, 2014 at 7:38 PM, Chris Larsen ████ @ripple.com> wrote:
>>>
>>>> Great analysi ████
>>>> OK - it's time to set a strong monetary policy. Let's chat tomorrow.
>>>>
>>>> Chris
>>>>
>>>> Chris Larsen | CEO
>>>> Ripple Labs, Inc.
>>>> ████ @ripple.com | ripple.com

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>>>> On Jul 10, 2014, at 6:53 PM, ⬛⬛⬛⬛⬛ @ripple.com> wrote:
>>>>
>>>> Chris⬛⬛
>>>>
>>>> I'll have this conversation with just the two of you as the follow
>>>> up to the investigation of the dumping (and recent trashing) of XRP pricing.
>>>> This is not a Jed phenomena.
>>>>
>>>> Here's what's happened. We've continued to sell XRP wholesale at a
>>>> discount to market (a practice you are well aware of that is
>>>> disfavor) instead of selling at the market. In this case, ⬛⬛⬛⬛
>>>> is buying at a ⬛ discount to market. ⬛⬛⬛ turns around and
>>>> does the same thing we are doing: "wholesaling" the currency to its best users (just as we do).
>>>> They shave the discount down to ⬛⬛ n the case of ⬛⬛⬛
>>>> selling to their best users. Those traders, in turn, if they sell
>>>> as soon as they get XRP are "ahead" of the market (like any high
>>>> frequency trader) and arbitrage the differential while trashing the marketplace.
>>>>
>>>> Basically, supply exceeds demand, whether through Jed's dumping or
>>>> our own discounting (and subsequent re-discounting). The worst
>>>> part of all this is that anyone in the know (myself included) who
>>>> is willing to get paid in XRP knows that holding (as long as
>>>> dumping and wholesaling are going on) is a losing strategy, and the
>>>> incentive is to sell as well (to minimize my holding losses --
>>>> which have been substantial incidentally since the XRP I receive
>>>> are break even to payout 1:1 costs I'm incurring in New Zealand
>>>> dollars and British sterling). All of this creates downward
>>>> pressure as a matter of pure supply and demand -- independent of any other intrinsic fundamentals.
>>>>
>>>> Without addressing these issues, its really hard for us to reverse
>>>> the dynamic and avoid the Zimbabawe spiral. Because we've neutered
>>>> any sort of consumer demand for XRP, the only utility is as a lubricant for traders.
>>>> Well that's fine if XRP was a closed loop system (like the oil for
>>>> your car), but if there's a leak, then there's going to be no
>>>> stoppage to prevent a loss of oil pressure. You can keep pouring
>>>> oil in, but as long as its pouring out, the system will run dry as
>>>> soon as you stop pouring it on. Unfortunately for us, the more we
>>>> pour on, the more we need to poor on as long as there is a material
>>>> overhang and no known (even if arbitrary) distribution strategy.
>>>>
>>>> As it stands, our controlled (and uncontrolled) monetary policy
>>>> remains loose. And what I have argued (and will continue to argue)
>>>> is that there will not be an effective monetary policy unless:
>>>>
>>>> -- we stop insider trading
>>>> -- we stop wholesaling at a discount for XRP that can be spot sold
>>>> -- we ignore the complimentary effects of retail and wholesale
>>>> demand
>>>>
>>>> Mind you, I have argued that we can discount future sales, but we
>>>> absolutely should NOT discount present sales, and we should lock

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>>>> folks up that are insiders (even me) that are getting paid in XRP
>>>> to clamp down on "dump supply". We are already seeking to lock Jed
>>>> up and have dealt with the issue of founder overhang to get to
>>>> reasonable levels with Arthur and Chris.
>>>>
>>>> So I do sound like a broken record here, but my assertion is that
>>>> we should think/act like a central bank and make our processes here
>>>> transparent and consistent. That means legitimizing the sale of
>>>> XRP at market prices (while paying commissions to the folks who act as agents).
>>>> Unless we commit to this market discipline, we'll continue to run
>>>> into situations like we've just had with █████████.e. him doing
>>>> with his customers what we are doing with ours. Its a loose
>>>> monetary policy at exactly the time we need a tight monetary policy.
>>>>
>>>> Bitcoin has that discipline by mathematical enforcement. We do not
>>>> because there's still the (short to medium term) uncertainty of
>>>> distribution. As long as our distributions strategy is loose (in
>>>> terms of founder/insider dumping and discounting to folks that
>>>> rediscount) there's a whole in the bucket that can just keep accelerating.
>>>>
>>>> Bottom line is that we need to take our foot off the pedal and get
>>>> an ███ound closed …. and get a clearly communicated strategy
>>>> that founder/insiders are locked down and that all sales to the
>>>> market place are going to be "at the market". What that means is a
>>>> prolonged period in which we spend *anything but* XRP in the
>>>> marketplace until we think that the price has recovered to the
>>>> point where Ripple Labs "enterprise value" is restored. This talk
>>>> is part of the reason that I ██████
>>>> █████ myself) have pushed to hold options on the upside of the
>>>> currency -- as it forces hard thinking on the monetary policy aspects of the currency.
>>>>
>>>> Unfortunately, we've been running Ripple labs with a Krugman fiscal
>>>> policy of late -- which is pumping money into the system to keep
>>>> interest rates (in our case XRP) low. I get that thinking, but
>>>> unfortunately we are pushing ourselves down to a point where we are
>>>> going to have to blow a big chunk of our dry powder (and
>>>> potentially all of it) until there's no chance of us even having a
>>>> monetary policy because we've squandered our XRP reserves. We
>>>> really need a monetary policy to push interest rates (in our case
>>>> XRP) up. But that a discipline that we haven't shown … and its
>>>> clear that ██████ and probably others) are reading those tea leaves
>>>> and are just aping what we are ourselves doing -- albeit on a
>>>> smaller (but still
>>>> devastating) basis.
>>>>
>>>> A real monetary policy would be us holding a basket of currencies
>>>> (rather than just XRP). People would know that we might support
>>>> the market (but not expect us to always do so). There's nothing
>>>> like that and I realize that its not in the DNA (and hasn't
>>>> factored into the enterprise strategy thinking). Those folks
>>>> though who think the absolute price of XRP doesn't matter are,

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>>>> IMHO, just dead wrong. The absolute price informs our runway, and the absolute volatility informs the overall
"utility" of XRP.
>>>> Yes, even with high volatility, market makers could use XRP as a
>>>> bridge currency. But even in that case, there are holding costs --
>>>> and the worse we do in the absolute level and volatility of the
>>>> currency, the higher the holding costs. At some point, we even
>>>> undermine our market makers -- arguably the strongest and defining element of our value proposition.
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>>>> I haven't said anything to ███ that is "evaluative." I just
>>>> listened to his explanations (which he was forthright with as it
>>>> was clear that ███ & Co. had all the research in hand). The
>>>> other currency he used for USD is not any attempt to hide the
>>>> trades -- it just lets him separately account for these discount
>>>> trade dollars passing through the system versus his "at par" trade
>>>> dollars. We can carp about ███ ut his micro economic analysis
>>>> of our macro economic setup was spot on. I'm not happy about it,
>>>> but its pure economics at work given the way we've stacked the deck.
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